

Bond Case Briefs

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MSRB Chief Economist Examines Decline of Transaction Costs for Customer Trades in the Municipal Bond Market.

Washington, D.C. – The Chief Economist of the Municipal Securities Rulemaking Board (MSRB), the self-regulatory organization that oversees the municipal securities market, today [shared his analysis](#) on the steady decline of the effective spreads for customer trades in the municipal bond market. Dealer-to-customer spreads (also known as “mark-up”), which measure costs paid by investors to execute a trade, dropped by 51 percent to 73 basis points between 2005 and early 2018, signaling a more efficient market.

“Our analysis shows that effective spreads have fallen substantially since 2005 for customer trades of less than \$1 million par,” said MSRB Chief Economist Simon Wu. “We found that while bond characteristics, such as percentage of insured bonds, average yield and average trade size, had an impact on the declining spreads, it was likely MSRB regulatory activities, transparency initiatives and advancements in trading technology that drove more than half of these changes.”

[*Transaction Costs for Customer Trades in the Municipal Bond Market: What is Driving the Decline?*](#) summarizes previous research on spreads and emerging issues regarding municipal market liquidity and municipal bond transaction costs. Using transaction data between January 2005 and April 2018, and methodologies to control for idiosyncratic municipal bond characteristics, Wu confirmed the results of previous studies. His research affirmed that dealers earn lower average mark-ups on trades over \$1 million, while also showing that these high par trade spreads have remained relatively consistent since 2005.

The report also proposes considerations for future research to evaluate the post-dealer compensation disclosure environment arising from [MSRB Rule G-15](#) mark-up changes that went into effect on May 14, 2018.

The MSRB studies market structure issues related to municipal securities as part of its mission to promote a fair and efficient market. It welcomes input from stakeholders on additional research ideas that would contribute to a better understanding of market dynamics. [Access MSRB data reports and analysis.](#)

Wu is responsible for economic analysis of MSRB rulemaking and municipal market transparency initiatives and leads related economic analysis of the financial markets. His previous report, [Municipal Bond ETFs: Liquidity Impact on the Municipal Bond Market](#), explores the growth of exchange-traded funds in the municipal securities market.

Date: July 18, 2018

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